

Auditor-General of South Africa

The Inkosi Langalibalele Local Municipality - Audit Report 2016-17

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on The Inkosi Langalibalele Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Inkosi Langalibalele Local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment – land and buildings

3. I was unable to obtain sufficient appropriate audit evidence that land and buildings stated at R280,59 million included in property, plant and equipment was properly accounted for, due to the status of accounting records. I was unable to confirm land and buildings by alternative means. Consequently, I was unable to determine whether any adjustment to land and buildings disclosed in note 4 to the financial statements was necessary. The resultant impact on accumulated surplus could not be determined.

Property, plant and equipment – other assets

4. I was unable to obtain sufficient appropriate audit evidence that the municipality had accounted for all assets included in property, plant and equipment, due to the status of accounting records. I could not confirm these assets by alternative means. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment stated at R523,67 million in note 4 to the financial statements was necessary. The resultant impact on accumulated surplus could not be determined.

Heritage assets

5. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for all other assets included as heritage assets due to the status of accounting records and non-submission of information in support of these assets. Consequently, I was unable to determine whether any adjustment relating to heritage assets stated at R9,27 million in note 9 to the financial statements was necessary.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions was properly accounted for due to the status of accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from exchange transactions stated at R33,15 million disclosed in note 9 to the financial statements were necessary. The resultant impact on the related impairment in note 31 could not be determined.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions was properly accounted for due to the status of accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions stated at R120,81 million disclosed in note 9 to the financial statements were necessary. The resultant impact on the related impairment in note 31 could not be determined.

Inventory – land held for sale

8. The municipality did not completely and accurately account for all inventories in accordance with GRAP 12, *Inventories* due to the status of the accounting records. I was unable to confirm the inventories, land held for sale by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventories stated at R15,29 million as disclosed in note 8 in the financial statements.

Trade payable – provision for leave

9. The municipality did not accrue for leave pay correctly, as required by GRAP 25 *Employee benefits*, due to the status of the underlying records. Consequently, I was unable to determine whether any adjustment was necessary to the accrual stated at R7,09 million as disclosed in note 17 in the financial statements. Additionally, the resultant impact on employee cost expenditure and the accumulated surplus could not be determined as it was impractical to do so.

Commitments

10. The municipality did not properly account for commitments as required by SA Standards of GRAP 17 *Property, plant and equipment* due to inadequate systems and processes to account for this disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, commitments stated at R1,94 million in note 38 to the financial statements was misstated by an unknown amount.

Contingent liabilities

11. The municipality did not properly account for contingent liabilities as required by SA Standards of GRAP 19 *Provisions, contingent liabilities and contingent assets* due to inadequate systems and processes to account for this disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, contingent liabilities stated at R18,48 million in note 39 to the financial statements was misstated by an unknown amount.

Provisions – Landfill site

12. The municipality did not properly account for the provision for environmental rehabilitation as required by SA Standards of GRAP 19 *Provisions, contingent liabilities and contingent assets* due to inadequate systems and processes to account for this provision. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, provisions stated at R25,699 million in note 16 to the financial statements was misstated by an unknown amount. The resultant impact on the land value in note 4 could not be determined.

Employee benefit obligation

13. The municipality did not properly account for the employee benefit obligations as required by SA Standards of GRAP 25 *Employee benefits* due to inadequate systems and processes to account for this liability. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, employee benefit obligations stated at R33,06 million in note 7 to the financial statements was misstated by an unknown amount. The resultant impact on employee related cost in note 27 could not be determined.

Irregular expenditure

14. The municipality made payments in contravention of the supply chain management requirements that were not included in irregular expenditure stated at R33,82 million in note 45 to the financial statements. I was not able to determine the full extent of the understatement of irregular expenditure, as it was impractical to do so.

Emphasis of matters

15. I draw attention to the matters below.

Material impairment

16. As disclosed in note 9 to the financial statements, the municipality raised a provision for bad debt impairment of R33,18 million on consumer debts as the recoverability of these amounts were doubtful.

Material uncertainty relating to going concern

17. I draw attention to the financial statements, which indicates that the municipality incurred a net loss of R 102,32 million during the period ended 30 June 2017 and, in addition, the unspent conditional grants of R17,75 million and consumer deposits of R3.37 million as disclosed in notes 14 and note 18 respectively were not cash backed at year end. These events or conditions, as set forth in the abovementioned notes, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matters

18. I draw attention to the matters below.

Unaudited disclosure notes

19. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

20. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP, and the requirements of the MFMA, and Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
22. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

23. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

24. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

25. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
26. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
27. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the basic service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2017.
28. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
29. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective	Pages in the annual performance report
Basic Service Delivery	x – x

Basic Service Delivery

Various Indicators

30. The municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. We were unable to obtain sufficient appropriate audit evidence for the following indicators. This was due to limitations placed on the scope of our work. I was unable to confirm the reported achievement by

alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements. Details of these indicators are as follows:

- Construction of Masimini Gravel Road ● Construction of Dube-Village Gravel Road
- Construction of Mahlutshini Gravel Road ● Construction of Mankonjane Gravel Road
- Construction Thwathwa link Gravel Road ● Construction of Newlands-Lochsloy Pedestrian Bridge ● Construction of Tatane Vehicle Bridge ● Construction of Ephangweni Community Hall ● Bhungane/Rosedale Community Hall ● Construction of Madazane Community Hall/Creche ● Construction of Mimosadale Bus and Taxi route ● Number of 63 Kms maintained (MIG Roads) ● Number of units completed ● Review households without electricity in terms of new housing schemes by the end of 30 June 2017 ● Number of households with access to basic electricity in the municipal supplied urban area by 30 June 2017 ● Number of households with access to basic electricity in the Eskom area by 30 June 2017 ● Number of households with access to basic solid waste removal.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. The annual performance report on pages x to x; x to x includes information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 31 of this report.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
34. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
36. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Procurement and contract management

37. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as tender documents and procurement documents were not provided.
38. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c).
39. Some of the quotations were accepted from bidders and contracts were awarded to providers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
40. Some of the quotations were accepted from bidders and contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
41. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
42. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act .
43. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act .
44. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
45. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
46. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Expenditure management

47. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
48. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

49. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,14 million, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d).

Budgets

50. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R17,80 million, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Asset management

51. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

Conditional grants

52. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant and INEP grant, as required by section 12(5) of the Division of Revenue Act.

Strategic planning and performance management

53. The IDP did not include a financial plan, as required by sections 26 (h) of the MSA and municipal planning and performance management regulation 2(3).
54. A performance management system was not established as required by section 38(a) of the MSA and municipal planning and performance management regulation 8.

Other information

55. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
56. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
58. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact.
59. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement

therein; I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

Internal control deficiencies

60. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
61. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

62. Significant deficiencies in oversight and monitoring of internal controls resulting from the instability of leadership in the municipality contributed to a complete breakdown in internal controls and a lack of adequate accounting records to enable and support effective financial and performance reporting as well as compliance with legislation.

Financial and performance management

63. Management has not implemented a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support transactions recorded in the annual financial statements and performance report as well as compliance with legislation.

Auditor General

Pietermaritzburg

15 March 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officers’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Inkosi Langalibalele Local municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence.